

ENTERTAINMENT REVENUE

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GAMING CONTROL BOARD
GAMING AUDIT PROCEDURES MANUAL

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CASINO ENTERTAINMENT TAX TERMINOLOGY

The following terminology is applicable to casino entertainment tax:

Auditorium	A facility with a maximum seating capacity of 2,750 or more persons at an event in which entertainment is presented in connection with serving or selling food or refreshments or selling any merchandise.
Cabaret tax	Another term for casino entertainment tax.
Casino Showroom	A facility with a maximum seating capacity of no more than 2,749 persons at an event in which live entertainment of a type offered in a cabaret is presented in connection with serving or selling food or refreshments or selling any merchandise.
Complimentary	An item (or service) of value that the licensee usually sells, that is given to a patron without the patron having to pay for the item (e.g., complimentary drinks, food, rooms, etc.).
Cover charge	The part of the show price that is not associated with food, drink or merchandise; similar to an admission charge.
Dark days	Days without entertainment.
Detail cash register tape	A tape that records each transaction that occurs on the register. Alternatively, a computer-generated detailed transaction report by location or by cash register is acceptable.
Dupe slip	Used in a showroom to record the number of customers in a party and the table number. It is a second copy, or duplicate, of the hard check.
Four-waller	An entity unrelated to a licensee which leases the licensee's showroom for the purpose of staging a show. The regulations and statutes specifically require the licensee to maintain all records relating to the entertainment tax and to pay the entertainment tax. Mainly because of the recordkeeping requirements, licensees must pay tax on unredeemed tickets which were sold by a four-waller.
Gross sales	The amount of sales that includes taxes and, sometimes, gratuities.
Hard check	The slip used to record a transaction and presented to the customer before the transaction is settled; usually placed into the cash register and the cash register will print the transaction on the hard check.
Instrumental music	Music played by live musicians on musical instruments.
Kickout tape	The customer's receipt from a cash register.

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Mechanical music	Music reproduced by any mechanical, electrical or electronic means, or a combination of such means.
Mechanical speech	Speech reproduced by any mechanical, electrical or electronic means, or a combination of such means.
Minimum	See Cover charge.
Net sales	The amount of sales without taxes and, if applicable, gratuities.
NGC-11	Tax report form used to report casino entertainment revenue and tax (combined on NGC-1 prior to September 1991).
Retail price	The amount charged to a customer who does not have a coupon or discount.
Server codes (or keys)	The cash register key codes that designate which employee served a patron or took a patron's order (i.e., waitress, bartender, etc.).
Settlement codes (or keys)	The cash register key codes used to record how a customer paid for the order (e.g., cash, credit, etc.).
Starter slip (or soft check)	Used in a showroom to record the customer's orders.
Z-out tape	The summary tape that summarizes the transactions recorded on the detail tape, including totals for the different register codes (or keys).

GENERAL

Most Nevada gaming licensees pay a 10% tax on all amounts paid for admission, food, refreshments and merchandise when these sales are made where music and dancing privileges or any other entertainment is provided to the patrons in a cabaret, nightclub, cocktail lounge or casino showroom in connection with the serving or selling of food or refreshments or the selling of any merchandise. This is referred to as **casino entertainment tax (CET)**. A licensed gaming establishment is not subject to casino entertainment tax if they are licensed for fewer than 51 slot machines, fewer than six games, or any combination of slot machines and games within those respective limits; or if no distilled spirits, wine or beer is served or permitted to be consumed; if only light refreshments are served; if where space is provided for dancing and no charge is made for dancing; and if where music is provided or permitted, the music is provided without any charge to the owner, lessee or operator of the establishment or to any concessionaire. **NRS 463.401(2)**.

There are two places in the statute that describe what is **not** subject to CET. One is labeled "kinds of entertainment" [**NRS 463.4015(1)**], meaning activities, and the other is geared to where the activity occurs [**NRS 463.4015(2)**]. Thus to determine if an activity is taxable, it is easiest to first determine if the facility is taxable. An "auditorium" means a facility with a maximum

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seating capacity of 2,750 persons or more. **No** entertainment activity in an auditorium is taxable, as long as 2,750 tickets or more were sold. A "showroom" is a facility with a maximum seating capacity of 2,749 or fewer persons. Proving the seating capacity will be determined by how many seats were set up to be sold. For example, if 2,800 seats were set up and 2,800 tickets were printed, but only 2,700 were sold, it's not taxable. The licensee must be able to prove this 2,800 seating arrangement plan.

One final point in determining taxability. **NRS 463.401.2(b)** says that a licensed gaming establishment is not subject to tax if the entertainment is presented in a facility that would not have been subject to taxation pursuant to **26 U.S.C. 4231(6)** as that provision existed in 1965. This is because the statute was originally rooted in the federal **cabaret** tax, and still is. That portion of the federal code covered admissions, rather than cabaret tax, as the federal code was split. So what this paragraph means is that an activity which would have been taxed in 1965 under the admissions tax (i.e., circuses and rodeos) rather than the cabaret tax is not now subject to the State tax. The admissions portion was simply added to the statute in 1967. Portions of **NRS 463.401, 463.4015 and Regulation 13** can be traced to wording in the federal code.

NONTAXABLE AND TAXABLE EVENTS OR SALES

NRS 463.401 defines types of venues and entertainment that are subject to casino entertainment tax while **NRS 463.4015** provides exclusions. Previously, much of the taxes' applicability has been determined through court cases. While not all situations were adjudicated, Board policy has been established for the following:

Bus programs - Some licensees offer day-trip bus promotions which include lounge drink coupons and gaming coupons. If the promotion can be considered a package program with entertainment taxable sales, a breakdown may be necessary to allocate the appropriate portion to entertainment taxable revenue.

Charitable events - Truly charitable events (**ALL** ticket proceeds go to the charity) are not taxable. Any rebates from the charitable organization back to the licensee are taxable. Similarly, sales of drinks, etc. during a charitable event are taxable if the licensee retains the sales proceeds.

Tournament awards banquets - Packages that include gaming tournaments and award banquets/parties that include entertainment are to be considered private meetings/dinners not primarily conducted for entertainment purposes and, therefore, are nontaxable events.

Sales outside of entertainment facility - Merchandise sales occurring inside a showroom are taxable. However, such sales made outside the showroom are nontaxable if the sales do not entitle patrons admission to the show.

Mechanical music - One frequently noted problem is the presence of jukebox, MTV or other mechanical music. Where either a dance floor is present or dancing is permitted, sales made in such areas are taxable.

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Temporary tents on property - If a cabaret-like atmosphere has been attained, sales are subject to entertainment tax.

Four-wall (leased) operations - The host casino is responsible for ensuring that the tax is paid and must take responsibility for ensuring compliance with regulations and statutes.

Area customarily used for trade shows or conventions – An entertainment event may be set up in rooms otherwise used for conventions or meetings. If the room is set up like a cabaret, nightclub or showroom, the event is taxable. Basically, if the patrons are seated at tables and are consuming food and/or beverages while being entertained, a cabaret-like atmosphere has been created. A concert in a facility of this type would be taxable unless the room, by virtue of its seating capacity, can be deemed an auditorium.

Instrumental music alone – Casinos frequently will have piano players in bars and restaurants who merely provide background music. This does not make sales in the area subject to entertainment tax. However, if the piano player sings or otherwise entertains the audience by telling jokes, etc., then this is not instrumental music alone. If there is anything other than the instrumental music, food and beverage sold during the entire performance is taxable.

Interactive entertainment – This is the type of nontaxable entertainment where the patron is surrounded by numerous elements of a particular theme where the patron may interact with some of the elements (for example, a casino area designed to simulate a space ship). This term would not include a situation where patrons interact with one another or the entertainer, such as with karaoke, magic acts or some sort of dinner theatre.

PACKAGE PROGRAMS

Package programs sold by licensees typically are sold at a lower price than what would be paid for all the components purchased individually. Because a licensee does not receive the same amount for a package that it would when the individual components are sold at full retail prices, it is necessary to allocate revenue to the individual components on an equitable basis, as mandated by **Regulation 13.040(3)**. Package program breakdowns accomplish this. Of course, the focus will be on entertainment taxable items. A list of package program terms, package program breakdown tips and a general form for the breakdowns follow.

PACKAGE PROGRAM TERMS

The following terms are applicable to package programs:

Breakage

The amount of revenue from the package price that is not assigned to a component of the package in a breakdown.

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Breakdown	A schedule of the amounts (per package component) at which revenue is recorded when the package components are redeemed.
Casino rates	The amount charged a patron for a hotel room when the customer is a known player in the casino.
Nonprofit costs	An expense to the licensee that does not involve a benefit to the licensee. Package programs contain nonprofit costs such as room tax, sales tax, gratuities, etc. In order to be a nonprofit cost, the amount must be payable to a third party and not involve a business decision by the licensee.
Package price	The amount the customer pays to purchase the package.
Package program coupon book	A small booklet given to the patron containing coupons for each element of the package. The patron uses the coupons when he wants to redeem a component of the package (e.g., a package program patron will present to the waiter a showroom coupon instead of paying cash for seeing the show).
Per person double occupancy	The term used when describing the amount charged one person for a room when the person shares the room with another person. Package prices are usually based upon what type of room the customer receives (e.g., \$65.00 per person double occupancy vs. \$79.00 per person single occupancy).
Rack rates	The standard amount charged a patron for a hotel room.
Redeemed coupons	Coupons that were used by the package program patrons. Usually some value is included in revenue for redeemed coupons.
Travel agent commission	The amount a travel agent receives for each package program the travel agent sells (e.g., 10% of package price); can be considered as a nonprofit cost or a reduction of the package price for breakdown purposes.
Unredeemed coupons	Coupons that were issued to customers (i.e., the customer paid for the coupon) but were not used by the customer. Casino entertainment tax is due on a package program coupon whether the customer uses it or not, because payment has been received for the coupon [see Regulation 13.020(8)]. However, if payment is refunded back to the patron, no taxable sale has occurred.

PACKAGE PROGRAM BREAKDOWN TIPS

A licensee may sell coupon books that entitle purchasers to several services (i.e., hotel room for two nights, one dinner show, two cocktails in the lounge, luggage delivery, etc.). This is known as a package program. These packages are normally sold at a discount. In such cases, the

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auditor must determine whether the discount was allocated proportionately to all elements of the package. This is necessary in order to assure that a disproportionate amount of the discount wasn't allocated to items subject to entertainment tax. In other instances the licensee may not be including any portion of the package sale into taxable entertainment revenue.

In performing a package program breakdown consideration should be given to the following items:

1. Retail prices should be documented and include the source of the retail price information (i.e., cash register tapes, menus, documentation of price changes, etc.).
2. Weighted averages can be used to account for retail price changes of package items.
3. Examine both coupon books and package flyers to determine components of the packages.
4. An item has intrinsic value if it may be exchanged for food, drinks, merchandise or service. Package components with an intrinsic value may be included as a nonprofit cost, if the cost of the item is absorbed. For example, a package includes a coupon for a \$1.00 discount for pizza in the pizza parlor. The licensee pays the pizza parlor, which is not owned by the licensee, \$1.00 for each discount coupon redeemed. The package breakdown would include \$1.00 as a nonprofit cost.
5. Examine all coupons to determine which coupons include tax and tip. Some coupons may only include tax.
6. Breakdowns should be computed for each version (i.e., when components change) of the package program.
7. Beware of any sales tax rate and gratuity changes. If the charges for food and beverage are itemized separately from admission charges, sales tax should be charged only on the food and beverage portion. Verify what is remitted to third parties as gratuities, sales taxes, room taxes, etc. Only the remitted amounts should be included as nonprofit costs in the package program breakdown.
8. The tax on entertainment within a package program should be based upon the value of all the entertainment offered in the program. For example, if a program offers two types of entertainment (showroom and lounge), then the tax due is based upon the value of the two combined.
9. Items that are offered free to the general public but are included in the package should not be given a retail value in the breakdown (e.g., if a free show coupon is included in the package yet is also available free to the general public, no value would be assigned in the breakdown).
10. Bar coupons should be apportioned between entertainment and nonentertainment areas as well as entertainment status vs. nonentertainment status for entertainment areas. A certain percentage of the coupons in the allocations can be non-taxable items if it can be demonstrated, through redemptions, that the same or similar percentage of items were

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redeemed in non-taxable areas/times. A percentage of taxable times or areas may be used if specific records of redemptions are unavailable or cumbersome.

11. If unlimited drink coupons are included in a package program, allocations should be based on the actual redemption records. If no records are available an estimate should be used. In general, the assumed number should not be less than two drinks per person per day up to a maximum of ten per person total.
12. Be sure that the amount allocated to CET items does not exceed the regular retail price of the CET items. This does happen in some circumstances, especially if the package includes a tournament. Remember, though, awards banquets are not taxable.
13. Two-for-one coupons for show admissions included in the package should be given zero value. The patron is *not* afforded the right to attend a show by getting this coupon. When the patron redeems the coupon, paying additional fees, the revenue from that sale is subject to entertainment tax.

It is not necessary to do package program breakdowns in the following situations:

1. The package program entertainment items are reported at retail. Note that Regulation 13.040(3)(e) indicates that licensees have the option of paying CET on full retail value of the package components.
2. Each of the package's entertainment components retails at less than \$5. However, a package containing unlimited drinks redeemable in areas subject to entertainment tax is considered to be one element of the package (and thus in excess of the \$5 threshold).

PACKAGE PROGRAM BREAKDOWN

Using the totals from the form on page 9, the following formula is used to estimate the taxable portion of a package program:

$$(S - C)/(R - C) \times E = \text{taxable amount per package}$$

S = Package program sales price (i.e., amount received less travel agent commission, if any).

Note: For tournament package programs which include entertainment taxable items, "**S**" = the difference between the cost of entering the tournament only and the higher fee for entering the tournament including a show, room, etc. In cases where there is no option to play in the tournament without the other items, "**S**" = entry fee less guaranteed average payback per entrant.

C = Nonprofit costs (i.e., items on which no profit is made (sales tax, entertainment tax, tip, luggage delivery, etc.)). Commissions may be prorated based upon the number of packages sold by travel agencies, etc., to the total number of packages sold and treated as a nonprofit cost in the formula.

R = Retail sales price of all items in the package (including free coins but generally excluding free play coupons and other promotional coupons), shown net of taxes and other nonprofit costs.

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E = Net retail sales price of all items subject to entertainment tax.

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Package Program Breakdowns

Package Name _____ **Period in Effect** _____

Package Components	Applicable Tax and Gratuity Rate	Advertised (Street) Price (R)	Net Retail Price (S)	Nonprofit Costs (C)	CET Items (E)	W/P or Comments
Room						
Room Tax						
Show Ticket						
Sales Tax						
Entertainment Tax						
Gratuity						
Bellman						
Food						
Sales Tax						
Gratuity						
Free Play						
Keno						
Slots						
Table Games						
Other						
Miscellaneous						
Total						
Sales Price						
Travel Agent Commission						
Other						
Net Amount Received						
Calculated Taxable Amount Per Package: \$ _____ Taxable Amount Used by Licensee: \$ _____						

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TOURNAMENT PACKAGES

The auditor should be aware of any entertainment items offered in conjunction with a tournament. A portion of the total amount paid for the tournament and room, food, and beverage may be subject to entertainment tax.

The following is an example of the calculation which should be used if the patron had the opportunity to pay one fee for the tournament only and a higher fee for the tournament and a show:

Assume that for \$1,000 the patron would receive the right to play in the tournament, a hotel room and a show. Also assume that a patron could pay \$800 to play in the tournament only.

Other given information:

500 patrons paid \$1,000

100 patrons paid \$ 800

Total entry fees: \$580,000

Total prizes awarded: \$450,000

\$200 attributable to non-tournament items

Total retail value of room and show: \$350

Nonprofit costs: \$19

Retail value of the show: \$25

Calculation of the amount subject to CET

$$\frac{\$200 - \$19}{\$350 - \$19} \times \$25 \times 500 = \$6,835 \text{ taxable entertainment revenue}$$

In cases where the tournament brochures did not specifically indicate an option to play in the tournament without the other items, the following calculation should be used (using some of the same information as above):

500 patrons paid \$1,000 each to enter: \$500,000

Total prizes awarded: \$450,000

$$\frac{\$450,000}{500} = \$900 \text{ guaranteed average payback per entrant}$$

(considered a nonprofit cost)

$$\frac{\$1,000 - \$919}{\$350 + \$900 - \$919} \times \$25 \times 500 = \$3,059$$

SHOW TICKET SALES

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If an admission ticket doesn't specifically state which taxes are included in the price, as addressed in **Regulation 13.050(5)**, the entire ticket price is subject to entertainment tax (and the licensee is considered to be absorbing the tax). "All taxes" notation on the ticket is **not** acceptable.

The total amount charged for showroom sales, less gratuity, entertainment and sales taxes, is the amount subject to tax. However, admissions charges themselves are not subject to **sales** tax; only the amount attributable to food or drink is subject to sales tax. The following example shows how to determine entertainment taxable revenue:

Example:

A show ticket is sold to a casino patron for a total of \$112.00 which includes taxes (10% entertainment tax and a 7% sales tax) and gratuity (rate is 17% of drink prices per contractual agreement). The show includes 2 \$4.00 drinks; this is the amount allocated to the drinks by the licensee.

\$112.00	Amount received
- 1.36	Gratuity (\$8.00 x 17% contractual rate)
- .56	Sales tax (\$8.00 x 7%)
110.08	Base price plus entertainment tax

$\frac{110.08}{1.1} = 100.07$ Revenue subject to entertainment tax

GENERAL ACCOUNTING

An important part of the entertainment revenue calculation is arriving at the "correct" net amount subject to the tax. For example, we know that a base price of \$10 together with sales tax of 7% and entertainment tax of 10% would cost a patron a total of \$11.70. \$10 is the amount of entertainment revenue. However, licensees always start with the total cost to the patron and back out taxes. If they were to remove sales tax, then entertainment tax (rather than doing them conjunctively), the licensee may be understating revenue.

$\$11.70 \div 1.07 = \10.93 To remove sales tax
 $\$10.93 \div 1.1 = \9.94 To remove entertainment tax

We know that the base price is \$10.00. Therefore, revenue is not being calculated correctly.

Be aware that some computer systems back out the sales tax using this improper formula. Don't take for granted that an amount is proper because it's computer generated. The formulas make all the difference.

CREDIT CARD FEES

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NRS 463.401(1) has been changed to specifically state that credit/debit card fees paid to persons other than the licensee are not subject to entertainment tax. The change was effective June 9, 1999; tax returns submitted for May 1999 may include a deduction for the fees paid. This credit card fee should be accounted for much the same as gratuities; it would be deducted from gross entertainment revenue prior to the backing out of taxes. However, licensees typically will not know the actual fees paid until well after the daily work is posted net of taxes. So in order to deduct the fees, the same algebraic equation must be applied to the fees as was originally applied to the gross entertainment revenue figure.

To illustrate, assume \$7,000 was paid in fees and \$107,000 was the gross revenue received by the licensee, coincidentally including \$7,000 in credit card fees charged to the customer. Also assume this is admission sales only, so we will not contend with sales tax and gratuities. Net entertainment revenue is determined as follows:

$$\begin{array}{rcl} & \$107,000 & \text{Gross sales} \\ \text{Subtract} & \underline{7,000} & \text{Credit card fees paid, not subject to CET} \\ & \$100,000 & \\ \text{Divide by} & \underline{1.1} & \text{To remove taxes} \\ & \underline{\$ 90,909} & \text{Net entertainment taxable revenue} \end{array}$$

Also assume that because the licensee doesn't know that the fees paid will eventually be \$7,000, they have booked net CET revenue as \$97,273 ($107,000/1.1$ rounded). If they were to deduct the whole \$7,000, revenue would be \$90,273. And we know it should be \$90,909 based on the calculation above. What they have to do is state the \$7,000 in the same terms as net CET revenue or, in other words, apply the same formula to the fee figure. Then the computation would be:

$$97,273 - (7,000/1.1) = 90,909$$

Accordingly, either method will produce the same result:

$$\begin{array}{l} (107,000 - 7,000)/1.1 = 90,909 \\ \text{or} \\ (107,000/1.1) - (7,000/1.1) = 90,909 \end{array}$$

Keep in mind that the licensee can deduct these credit/debit card fees even if they never collected additional service charges from patrons. Also, add-on service charges collected from the patrons have no effect on what is deducted; licensees are only allowed to deduct the credit/debit card fees actually paid to or retained by persons other than the licensee. The service charges collected from the patrons should be included in the computation prior to backing out the fees paid. If, for example, the licensee does not collect any service charge from a patron on a \$100.00 ticket (CET inclusive), and pays \$2.00 in credit/debit card fees, entertainment taxable revenue would be:

$$(100.00 - 2.00)/1.1 = 89.09$$

If an add-on service charge of \$2.50 was collected from the patron for this same transaction, the calculation of entertainment taxable revenue is slightly different:

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$$(100.00 + 2.50 - 2.00)/1.1 = 91.36$$

Only those credit/debit card fees associated with the sale of entertainment taxable events may be deducted. The licensee must have some means of identifying credit/debit card fees as being related to entertainment in order to deduct them. Normally, a licensee will generate deposits for each revenue area. A problem arises when a patron charges tickets to his room, then pays for the room and all incidental charges with a credit card. The licensee must have some method for determining which credit card charges are for the entertainment event and which are not—otherwise the charges are not deductible.

The various credit/debit card fees and rates can be found on the credit/debit card statements. Note however that monthly account fees and chargeback fees (a fee charged by credit card companies for investigating a protested charge) do not directly relate to the sale of a ticket and may not be deducted. Estimated rates are not to be used to calculate the amount to be deducted.

DISCOUNT SHOW TICKET SALES

Discounts on show tickets can be given in a number of ways. A licensee can employ coupons allowing a price break to the general public, they can sell blocks of tickets at a reduced rate, and they can have others sell their tickets and remit only a portion of the amount collected from patrons.

DISCOUNT SHOW TICKET TERMS

The following terms are applicable to discount show tickets:

Bill to wholesalers	Wholesalers that are billed (usually through accounts receivable) for discount show tickets that were redeemed at the casino. In that the licensee does not receive payment for unredeemed tickets, there is no tax due on unredeemed discount show tickets.
Discount show ticket	A ticket to a show for which the licensee receives an amount less than the retail price of the show.
Discount show ticket wholesaler	A person (or agency) that sells show tickets to the public for the licensee and pays the licensee an amount per ticket that is less than the retail price (i.e., a discounted price).
Prepay wholesalers	Wholesalers that purchase a block of discount show tickets that the wholesaler will in turn sell to the public. In this case the licensee receives revenue for a block of tickets whether the tickets are redeemed or not. In that the licensee receives payment for all tickets, tax must be paid on the unredeemed tickets.
Redeemed discount show tickets	Show tickets, bought from a wholesaler, that were used to attend a show. Generally, an amount is included in casino entertainment

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revenue for the ticket at the point in time that the ticket is used (unless recorded as a complimentary).

Unredeemed discount show tickets

Show tickets for which the licensee received payment but were not used to see the show. Often a licensee will incorrectly not include an amount in casino entertainment revenue for unredeemed tickets as required by **Regulation 13.020(8)**.

Wholesaler's commission

The difference between the retail price of the show and the amount paid to the licensee by the wholesaler.

DISCOUNT SHOW TICKET ACCOUNTING PROCEDURES

There is a difference between discount show tickets purchased via another licensee at retail prices and those sold in block to prepay wholesalers. In the first case, the other licensee is considered to be an agent of the licensee providing the show. Therefore, the commission given to the agent licensee is not deductible in calculating the net sales price subject to sales tax. Prepay wholesalers are normally given a healthy discount at the time of purchase. The sales tax associated with these tickets is based on the purchase price and the discounted amount is ignored. Examples 1 and 2 show the effect on entertainment revenue. Keep in mind that normally licensees will allocate a portion of the sales price to beverage sales, the only portion in these examples subject to sales tax. These examples assume the full amount is sales taxable and are included here only to show the effect.

Example #1:

A show ticket is sold to a casino patron by another licensee. This show ticket is priced at \$10.00 plus taxes and gratuity for a total of \$13.40. The show includes 2 drinks; no drink prices are specified. In addition, the licensee selling the ticket is given a \$3.00 commission for each ticket it sells and remits the net amount upon billing.

\$13.40	Full retail, inclusive
<u>- 3.00</u>	Commission
<u>\$10.40</u>	Amount received

\$10.40	Amount received
- 1.70	Gratuity (\$10.00 x 17% contractual rate)
<u>- .70</u>	Sales tax (\$10.00 x 7%)
<u>\$ 8.00</u>	Entertainment taxable base plus CET

\$ 8.00 = \$ 7.27 Revenue subject to entertainment tax
1.1

Example #2:

A show ticket is sold at a discount to wholesalers. The discounted ticket contains a statement that taxes and gratuity are included and also that the patron will receive 2 drinks (the same as any other show ticket sold directly to the patron). The amount the

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licensee receives from the wholesaler for each ticket is \$5.00, paid at the time of purchase. The ticket is normally sold at a retail price of \$10.00 plus taxes and gratuity.

\$5.00	Amount received
<u>- 1.70</u>	Gratuity (\$10.00 x 17% contractual rate)
<u>\$3.30</u>	Base price plus taxes

\$3.30 = \$2.82 Entertainment (and sales) taxable base price
1.17

Note that in both examples the sales tax payable is computed on the amount the licensee or the licensee's agent charges for the ticket. If the prepay wholesaler resells the ticket, that wholesaler will be responsible for any additional sales tax, not the licensee.

The commission or discount should be deducted from the full retail value of the ticket prior to the backing out of taxes. The amount received is the base from which net entertainment revenue can be determined.

Example #3:

A show ticket is sold to a casino patron by another licensee for a total of \$112.00 which includes taxes (10% entertainment tax and a 7% sales tax) and gratuity (rate is 17% of drink prices per contractual agreement). The show includes 2 \$4.00 drinks; this is the amount allocated to the drinks by the licensee. In addition, the licensee selling the ticket is given a \$3.00 commission for each ticket it sells and remits the net amount upon billing.

\$112.00	Full retail, inclusive
<u>- 3.00</u>	Commission
<u>\$109.00</u>	Amount received

\$109.00	Amount received
- 1.36	Gratuity (\$8.00 x 17% contractual rate)
<u>- .56</u>	Sales tax (\$8.00 x 7%)
<u>\$107.08</u>	Base price plus entertainment tax

\$107.08 = \$97.35 Revenue subject to entertainment tax
1.1